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C O N F I D E N T I A L SECTION 01 OF 03 BONN 14676

DEPARTMENT PASS FEDERAL RESERVE, CEA AND TREASURY
FOR WIDMAN

E.O. 11652: GDS

TAGS: ECON, EFIN, GW

SUBJECT: GNP AND BALANCE OF PAYMENT FORECASTS

1. SUMMARY. THE GERMAN GOVERNMENT NOW PROJECTS 1974
GNP GROWTH AT 1.5 PERCENT IN REAL TERMS AND 8.5 PERCENT
AT CURRENT PRICES. THE EMBASSY BELIEVES THIS
PROJECTED TO BE REASONABLE. FOR 1975 THE GOVERNMENT
PROJECTS REAL GNP GROWTH AT 3.0 - 3.5 PERCENT AND THE
CONSUMER PRICE INCREASE AT ABOUT 7 PERCENT. WE BELIEVE
REAL GROWTH MIGHT BE SOMEWHAT SLOWER AND ARE SUBMITTING
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A VERY TENTATIVE MORE DETAILED PROJECTION. IF ECONOMIC

ACTIVITY ABROAD SLOWS DOWN IN 1975, WE BELIEVE THE GERMAN TRADE SURPLUS WILL DECREASE MODERATELY AND THE CURRENT ACCOUNT SURPLUS MORE SUBSTANTIALLY. END SUMMARY.

2. FRG OFFICIALS ARE NOW REAPPRAISING THE ECONOMIC OUTLOOK AND IN THE PROCESS REVISING THEIR 1974 FORECAST AS WELL AS BEGINNING TO WORK ON FORECASTS FOR 1975. TABLE 1 IS AN EMBASSY EXTRAPOLATION OF WHAT WE BELIEVE THE STILL INTERNAL FRG FORECAST FOR 1974 LOOKS LIKE. IT IS BASED ON VARIOUS DISCUSSIONS WITH PRIMARILY ECONOMIC MINISTRY OFFICIALS. WE HAVE FILLED IN SOME OF THE GAPS AND BELIEVE THE FORECAST TO BE A REASONABLE ONE.

TABLE 1

1974 GNP FORECAST

NOMINAL

	PERCENT GROWTH	
DM BILLION	OVER 1973	
PRIVATE CONSUMPTION	534	8
PUBLIC CONSUMPTION	195	15
FIXED INVESTMENT	235	3.5
CHANGE IN INVENTORY	4	
NET FOREIGN BALANCE	36.5	
.....		
GNP	1004.5	8.5

REAL (1962 PRICES)

	PERCENT		
DM BILLION	OVER 1973	DEFLATOR	
PRIVATE CONSUMPTION	337	0.3	7.5'
PUBLIC CONSUMPTION	83	3.0	12.0

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FIXED INVESTMENT	145	-3.3	7.3
CHANGE IN INVENTORY	2		
NET FOREIGN BALANCE	32		
....			
GNP	599	1.5	6.5

3. AS TABLE 1 INDICATES, THE UPSWING ORIGINALLY FORECAST FOR THE SECOND HALF OF 1974 HAS NOT YET OCCURRED AND IS

NOT LIKELY TO OCCUR DURING THE REMAINDER OF THIS
YEAR. DESPITE SUBSTANTIAL WAGE SETTLEMENTS LATE IN
1973 AND EARLY IN 1974, PRIVATE CONSUMPTION DURING
1974 AS A WHOLE IS NOT NOW PROJECTED TO GROW IN REAL

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TERMS. INVESTMENT IS CONTINUING TO STAGNATE AND ONLY
PUBLIC CONSUMPTION AND THE NET FOREIGN BALANCE (TRADE
AND SERVICES) SHOW SIGNIFICANT REAL GROWTH. REAL GNP
IS EXPECTED TO GROW BY ONLY 1.5 PERCENT. ON THE OTHER
HAND, THE LOWER THAN EXPECTED GROWTH IS ACCOMPANIED
BY LOWER THAN EXPECTED PRICE INCREASES WITH THE 1974

GNP DEFLATOR NOW ESTIMATED AT 7 PERCENT AND THE 1974
COST OF LIVING MONTHLY AVERAGE AT 7.5 PERCENT OVER
1973 INSTEAD OF THE 10 PERCENT PROJECTED AT THE
BEGINNING OF THE YEAR.

4. THE GERMAN GOVERNMENT HAS ANNOUNCED THAT IT EXPECTS
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1975 GNP TO GROW BY 3.0 - 3.5 PERCENT IN REAL TERMS
AND CONSUMER PRICES TO INCREASE BY ABOUT 7 PERCENT.
GOVERNMENT OFFICIALS HAVE BEEN VERY RELUCTANT TO DISCUSS
DETAILS OF THESE PROJECTIONS IN PART PROBABLY BECAUSE
THEY ARE STILL VERY UNCERTAIN AND UNDER MUCH INTERNAL
DISCUSSION. SOME UNRESOLVED TACTICAL AND POLITICAL
CONSIDERATIONS MAY ALSO PLAY A ROLE IN CONNECTION WITH
THE UPCOMING WAGE NEGOTIATIONS, SUPPLEMENTARY BUDGET
DISCUSSION, ETC. ON THE BASIS OF OUR VARIOUS
DISCUSSIONS WE HAVE NEVERTHELESS ATTEMPTED IN TABLE 2
TO PIECE TOGETHER HOW WE BELIEVE 1975 ECONOMIC PROSPECTS
CURRENTLY LOOK FROM BONN. THE RESULTING PROJECTION
IS A VERY TENTATIVE ONE AND CONTAINS A RELATIVELY
LARGE MARGIN OF ERROR, BUT WITH THESE CAVEATS AND THE
FUNDAMENTAL ASSUMPTIONS OF NO INTERNATIONAL CRISIS
AND SOME ECONOMIC SLOWDOWN IN THE REST OF THE WORLD
WE BELIEVE IT IS A REASONABLE ONE.

TABLE 2

1975 GNP FORECAST

NOMINAL

	PERCENT GROWTH	
	DM BILLION	OVER 1974
PRIVATE CONSUMPTION	585	9.5
PUBLIC CONSUMPTION	217	11.2
FIXED INVESTMENT	266	13.2
CHANGE IN INVENTORY	5	
NET FOREIGN BALANCE	32	
.....		
GNP	1105	10.0

REAL (1962 PRICES)

PERCENT		
DM	GROWTH	
BILLION	OVER 1974	DEFLATOR

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PRIVATE CONSUMPTION	345	2.5	7.0
PUBLIC CONSUMPTION	84	1.2	10.0
FIXED INVESTMENT	154	6.2	7.0
CHANGE IN INVENTORY	4		
NET FOREIGN BALANCE	28		
.....			
	615	2.7	7.3

5. IN THE ABOVE TABLE THE PRIVATE CONSUMPTION PROJECTION IS PROBABLY THE MOST TENTATIVE ONE. IF WAGE INCREASES THIS FALL SHOULD SUBSTANTIALLY EXCEED 10 PERCENT, ESPECIALLY THE CURRENT PRICE PROJECTION MAY BE TOO LOW. GOVERNMENT INVESTMENT IN FIXED ASSETS UNDOUBTEDLY WILL EXPAND SIGNIFICANTLY AS SUPPLEMENTARY

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BUDGET EXPENDITURES GET UNDER WAY, BUT WHETHER A
PROJECTED MODEST PICKUP IN PRIVATE REAL INVESTMENT
WILL ALSO TAKE PLACE IS NOT CERTAIN. THE NET FOREIGN
BALANCE, OF COURSE, DEPENDS ON DEVELOPMENTS NOT ONLY
IN GERMANY, BUT ALSO IN THE REST OF THE WORLD.

6. TO ROUND OUT THE PICTURE, TABLE 3 INDICATES A
VERY TENTATIVE EMBASSY PROJECTION OF THE 1974 AND 1975
GERMAN CURRENT ACCOUNT. THIS TABLE, PROJECTING
BALANCES OF MUCH LARGER COMPONENT ITEMS, IS OF COURSE
SUBJECT TO A PARTICULARLY LARGE MARGIN OF ERROR.

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BALANCE OF PAYMENTS PROJECTION
(DM BILLION)

	1974	1975
TRADE BALANCE	PLUS 47	PLUS 42
SERVICES BALANCE	MINUS 9	MINUS 10
TRANSFER BALANCE	MINUS 17	MINUS 19
.....	
CURRENT ACCOUNT BALANCE	PLUS 21	PLUS 13

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